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## Theorising in the business model domain: some pathways to pursue

### Authors

Robin Roslender<sup>1</sup> and Morten Lund<sup>2</sup>

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### Abstract

During the past quarter of a century the academic business and management literature has placed an increased premium on incorporating theory within contributions to it. Coincidentally this is the same time period during which the study of the business model domain has occurred. For the most part, despite an evident richness of content and practical utility, the evolving business model literature has exhibited a relatively limited focus on matters of theory. The purpose of this short paper is to identify several directions that colleagues attracted to addressing the current theory-lite nature of the business model domain might consider exploring. Much of the thinking underlying the paper emanates from the realms of the social sciences rather than the more familiar natural sciences. The paper reflects the authors' respective journeys to the business model domain together with their continuing work both within and beyond it.

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### Keywords

Explanation and understanding, social science, domain theory, method theory

1 Aalborg University Business School

2 Aalborg University Business School (formerly)

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# 1. What is a theory?

The purpose of a theory is to provide an explanation or an understanding of a specific phenomenon or some combination of phenomena. An established theory, or in popular discourse a proven theory, is one in which an explanation has been demonstrated to be sound in the light of empirical evidence collected in the process of verifying (or 'proving') the theory. In this way theory and prediction interface. Established theories allow predictions to be made, normally in the form of hypotheses, which can then be rigorously tested and, where supported, further strengthen the robustness of the theory. This model of scientific enquiry is designated the hypothetico-deductive model.

In popular discourse it is also common to talk of having a theory which, rather than being robust and established, is speculative. This is clearly exemplified in the case of a television detective offering their view of how a crime, e.g., a murder, has been committed. Their theory provides the requisite understanding of the crime in question, and dictates the manner in which corroborating evidence is pursued. Translated to scientific enquiry the underlying model here is that of induction as opposed to deduction, a theory being constructed through the systematic and repeated collection of the empirical evidence to support the asserted explanation. Theory construction via the process of induction involves a lengthy time period before it becomes possible to claim that any explanation merits being regarded as robust and reliable.

Much of our familiarity with theory comes from the natural sciences, and within these the physical sciences, and in turn the discipline of physics, widely regarded as the paragon of all science. The principal goal of physics is to understand how the universe behaves hence its fundamental affinity with theory. This affinity is further demonstrated in the constitution of physics, which is composed of a portfolio of theories explaining the behaviour exhibited by the universe exhibits, which is continuously subject to scrutiny in the pursuit of a better understanding. Two theories in particular are fundamental to modern physics, both of which were advanced in the early C20th: Einstein's theory of relativity and Planck's theory of quantum mechanics. For the greatest part the extant (sub) theories of physics are consistent with the latter pair of theories but unsolved problems continue to challenge physicists. At the extreme it may yet be the case that new fundamental theory/ies emerge, occasioning the same order of paradigm shift that occurred at the beginning of the last century. As Kuhn (1962) observed, existing understandings will persist while many previous problems will now be resolved, only to be replaced in time by new problems, thus perpetuating the challenge of understanding the universe's behaviour.

Before turning attention to business models, several crucial issues now need to be addressed, however. First, what is the relationship between theoretical physics, the main focus of the previous two paragraphs, and experimental physics? At its simplest the relationship sees the latter practices as engaging with the ideas (explanations) advanced by those working in the theoretical realm. Of necessity the two branches of the discipline proceed in tandem, with neither being the more important. Second, a more mundane question: where does the concept of a law of physics such as Boyle's Law, Hooke's Law or Newton's Law(s) fit within this arrangement? To begin to understand their relationship it is necessary to return to the earlier understanding/prediction dichotomy. Theories are

composed of laws which assume the form of generalised observables, which may in turn be formulated in terms of hypotheses that can be examined via rigorous empirical enquiry, the outcome which either support or challenge the soundness of the underlying theory. In the case of the laws identified above, widespread personal experience has either demonstrated the soundness of the prediction (law, theory) or that, as careless experimenters, we failed to follow the instruction manual sufficiently conscientiously! Finally, how does this perspective on theory apply in case of the social sciences, which during the past half century have evidenced a continued move away the methodology of positivism and a growing emphasis on qualitative enquiry (Llewellyn, 2003)? Many of the observations offered in the remainder of the paper are informed by this fundamental question.

## 2. The business model concept

Conscious of the critical distinction between ostensive and performative definitions, Nielsen and Roslender (2015) characterises a business model in the following terms:

*“[A business model provides] a description of the organisation’s concept for earning ‘money’ [that] identifies the platform that connects value creation and delivery between the organisation, its stakeholders, and its customers in order to capture value.” (p265).*

This characterisation is applicable to either an existing business model, as it might be disclosed in an organisation’s annual report, or to a business model that an organisation has decided to implement in the future. Nielsen and Roslender are explicit that a business model is a narrative focused on either how an organisation has earned or hopes to earn ‘money’. i.e., become profitable. Viewed in this way a business model provides the means to tell the story of actual or hoped for successful financial performance, echoing Margretta’s early contribution to the business model field (Margretta, 2002). A business model therefore provides a means to a generic end (profitability), and as such is to be recognised as business artefact, a tool fashioned for a specific purpose. The further implication of this view is that while it is correct to conclude that as a concept a business model is a singular or generic entity, like any tool it may assume multiple different forms. In turn these different forms are not to be seen as differing actual or extant business models as manifest by individual organisations, i.e., their unique concepts for earning money as in the above characterisation. In the same way that a screwdriver is a tool to be used to tighten or untighten screws, screwdrivers exist in many different forms one, principally designed although not necessarily solely to be used to (un)tighten screws.

Mention of tools in the context of business models signposts the necessity of exploring the relationship that exists between a business model and a second well-known artefact, Osterwalder and Pigneur’s Business Model Canvas (BMC). They describe the BMC as

*[A] tool [that] resembles a painter’s canvas – performed [sic] with nine blocks – which allows you to paint pictures of new or existing business models.....a hands-on tool that fosters understanding, discussion, creativity, and analysis. (Osterwalder and Pigneur, 2010: 42).*

While affirming the status of the BMC as a tool intended to tell the story of actual or hoped for successful financial performance, in contrast to Roslender and Nielsen Osterwalder and Pigneur commend the use of pictures rather than words (narrative) as a powerful means to tell the story. In order to avoid a potential confusion between what constitutes a business model and the BMC as tools, the former is reliant on a narrative approach suitable for use in the case in visualising both actual and proposed business activity while the latter employs a pictorial approach, one that is particularly useful in visualising proposed business activity. Although it may be possible to incorporate the BMC in documenting actual activity for example, in an annual report, its added value is questionable. A further interesting distinction is that there are many alternative canvases that might be employed to provide a pictorial visualisation of a possible business model. A narrative is a narrative.

Osterwalder and Pigneur offer a specific definition of a business model:

*“A business model describes the rationale of how an organization creates, delivers and captures value”* (page 14).

In so doing they highlight a new understanding on the pursuit of successful business performance, one on which Nielsen and Roslender (2015) build. The term value capture (as in “captures value”) refers to the creation and delivery of *financial value* to shareholders via the mechanism of profitability, which constitutes the traditional goal of business organisations operating in competitive marketplaces. What Nielsen and Roslender draw attention to, after Osterwalder and Pigneur (2010), is the recognition that the modern business organisation is challenged to create and deliver value to a broad array of stakeholders other than shareholders. Crucially, this value is not restricted to financial value, being associated with quality of life both present, and arguably more importantly, future. Nielsen and Roslender identify the specific stakeholder group of customers on the grounds that since the 1980s control within the competitive marketplace has increasingly shifted to customers whose value expectations must be satisfied by organisations through the creation and delivery of attractive value propositions, which constitute the central building block within any BMC. Once again value is by no means restricted to financial value, with many customer acquisitions incorporating significant emotional attributes and associations (Roslender and Nielsen,

### 3. Domain theory

The title of the paper incorporates the term domain rather than the more familiar field or alternatively jurisdiction, province or sphere. Domain is chosen purposely following the distinction identified in Lukka and Vinnari (2014) between domain theories and method theories. Although their discussion emerged in relation to accounting research, the distinction is more widely insightful. A domain theory is a theoretical entity developed to provide explanation or understanding of some element or aspect of a broader domain or more accurately sub-domain. For example, in the domain of the family there are many sub-domains including family structure, the family and marriage, the evolution of the family, family breakdown, patriarchy and matriarchy, etc. Each of these sub-domains offers a series of foci for which explanatory theories might be sought. Despite its relative

infancy, within the business model domain numerous sub-domains have emerged including business model innovation, ecosystems, circular business models, sustainability, scalability and performance measurement and reporting, each of which incorporates constituent aspects meriting theorization and thereby greater understanding. As additional aspects of the business model domain continue to be identified and explored, the scope for further theorisation also increases. What is already apparent, however, is that the resultant aggregation of theoretical understandings and insights is less uniform or coherent than is generally the case with natural science disciplines. This is because the business model domain, in common with most other business and management domains, better lends itself to the model of social scientific research and thus theory-building.

Domain theories provide those either working within or about to enter a particular sub-domain with the knowledge and understanding required to successfully navigate the existing terrain. In some sub-domains the quantity of theory is already extensive, with the result that it is unlikely that more than a few working within the domain possess anything approaching a full understanding of it. This provides the basis for specialisation of focus where only a familiarity with the broader domain is required. Consequently, despite being a relatively new domain, the variation evident within business model domain theory is beginning to pose a challenge to newcomers. Compounding the challenge, as consequence of its business and management affinities, the evolving business model theory set also incorporates a compendium of normative (prescriptive) theories. These provide guidance on how to engage particular business model issues and challenges that are commonplace across the domain and for which a measure of received wisdom has emerged. Although the term theory is widely used in connection with this part of the literature, much of what is being referred to is not theory at all, being largely composed of implementation guidelines that have become established as reliable and thus useful when confronted by comparatively minor issues and challenges. These are attributes shared with the generality of management theory.

Despite arguments to the contrary, there is only limited similarity between much that is referred to as management theory and that associated with the natural sciences. Identifying and implementing a particular solution, however robust, may evidence some similarity with testing a specific hypothesis. However, what is occurring is more akin to following a tried and tested recipe when baking a cake or preparing casserole. While the product of such endeavours may be palatable for many of those who consume it, very few cakes are likely to stand comparison to what is expected in terms of the outcome of a rigorous hypothesis test (the 'perfect' cake). Those prescriptions or guidelines present within the business model domain might more accurately be regarded as akin to commended recipes, which in aggregation have much in common with any cookbook.

## 4. Method theory

Lukka and Vinnari (2014) use the term method theory to identify those theoretical frameworks that provide a means to frame research on the various phenomena that constitute a particular business model domain (sub-domain). Baxter and Chua (2006)

employ the term framing theories to identify this type of theory. As noted in the previous section a core attribute of the domain theories within the social science disciplines and those within business and management is the lack of coherence of content when compared with the natural sciences. In significant part this reflects the truism that framing studies using different ways of seeing ('frames') will provide different insights. This situation is very different to situation characteristic of the natural sciences because there, for the greatest part, a single way of seeing prevails, which in turn is shaped by the generic research methodology known as positivism. The prevalence of positivism within the natural sciences is so extensive that most working within science have only a limited familiarity with methodological issues in much the same way that they accept the hypothetico-deductive model as the only basis on which to pursue scientific research. Although some may have encountered the idea of induction, what it entails in practice is of limited relevance to them.

As a domain that falls within the broad business and management categorisation, research on the business model benefits immensely from being informed by various method or framing theories. This assertion is acknowledged as being provocative, if only because many of the researchers working in the business model domain to date seem comfortable disregarding such matters. By default these researchers might be designated as being strongly positivistic and unencumbered by matters of methodology. Within the sociology discipline, which continues as the main source of method theories, interpretivism was identified in the mid-1960s as the generic alternative to positivism (Burrell and Morgan, 1979; Roslender, 1990). Interpretivism requires researchers to recognise that in studying the social world as opposed to the natural world, only interpretive understanding ('verstehen') is possible and that notions such as truth or incontrovertible facts are unhelpful. The knowledge that a researcher may develop reflects many pre-existing understandings and therefore can only be partial. What actually identifies such knowledge as being credible is the rigour with which it has been developed. This does not preclude the possibility of any degree of consensus about the constitution of the social world since considerable overlap of prior understandings necessarily exists in order that society might itself exist.

Over time the growing range of much valued ways of seeing appears to have become less concerned with methodology and more focused on theory. The prevailing generic emphasis is that of constructionism, with a focus on understanding and documenting how social reality is constructed in the course of the continual interaction between participants (or 'in practice'). Once again it is acknowledged that any single study of a construction process can only be partial, their credibility reliant on the rigour of the underlying research design and analysis. As with the interpretivist turn, constructionism is associated with a range of established method theories, most of which are concept rich, thus furnishing a colourful analytic literature. Both Giddens' structuration theory approach (Giddens, 1976, 1979, 1984) and several variants of institutional theory (Powell and DiMaggio, 1991; Thornton and Ocasio, 1999; Lawrence, Suddaby and Leca, 2011) are widely subscribed. In addition the work of three French scholars has been embraced by researchers across the business and management disciplines, the most influential of these being Foucault and his governmentality perspective (Foucault, 1980, 1991). Latour's evolving actor-network theory provides a new perspective on constructionism, focusing on the role of both human and non-human actants (Latour, 1987, 1996). Insights

from Bourdieu, including his practice theory perspective and its association with performativity, are currently much in vogue (Bourdieu, 1984, 1990). Each of these ways of seeing has demonstrated their value for the study of the many facets of business and management in action, which strongly commends them to anyone wishing to pursue such research in the business model domain.

## 5. Understanding value creation within the business model domain

At the core of the business model domain is the long-established objective of successful value creation, delivery and capture by business organisations operating in the competitive marketplaces of capitalist societies. At first sight this is not a new objective, simply a different way of identifying the pursuit of profit by business organisations, and at the limit profit maximisation, a part of which is distributed to shareholders in the form of dividends. The remainder is retained within the business, perhaps being reinvested, with the objective of increasing its market value and thereby the wealth of its shareholders. Both value and wealth, like profitability, are understood to be measured in financial terms reflecting money's capacity to act as a store for them. The term value capture is new, however, although its referent is not. Value capture identifies the long-established transformation process whereby the financial profit produced within the organisation by the successful creation and delivery of a set of value propositions to customers becomes the financial wealth of accumulated by shareholders.

Although the concept of accountability has traditionally resonated with financial considerations, the increased range of stakeholders to whom business organisations are now accountable has highlighted the need to explore new forms of value beyond financial value. Earlier mention was made that an increasing proportion of modern-day customers now seek value other than financial value in the value propositions made available to them by business organisations. Although the expectation of 'value for money' is likely to perpetuate, in the case of what Porter (1985) designated "differentiated products", those for which customers are prepared to pay sometime significant premiums, customers have become increasingly concerned about issues such as sustainability, the use of child labour and broader human rights abuses, and inclusivity and diversity. Organisations perceived to be failing in such respects risk losing a section of their customer if they are not prepared to recognise the expectation of social and ethical value.

As noted earlier, customers are only one, albeit key, stakeholder to whom business organisations have now become accountable. A second key stakeholder group long-recognised in the broader business and management literature is that of the workforce. What is it that an employer might create and deliver to a workforce that in turn might facilitate enhanced profitability? The identification of human capital as a core component of intellectual capital has rejuvenated the exploration of what contributes to the creation of a desirable workforce (Flamholtz, Johanson and Roslender, 2020). The promise of growth in an employment and a prospect for career building have been affirmed as widely sought after attributes. The opportunity to enjoy a good work-life balance is similarly recognised to be important, together with the promise of job security.

In recent times the idea of an employee value proposition has emerged particularly in sites of talent wars (Minchington, 2006). A further key stakeholder are the local communities in which organisations' activities are embedded, especially within emerging economies relatively new to industrialisation. Beyond the availability of new employment opportunities, communities expect investment in infrastructure, education, healthcare and the promotion of greater inclusivity. Such attributes enhance the broader appeal of new business enterprises, which in turn contributes to its receptivity within the community. Finally society is now acknowledged as a stakeholder to which business organisations need to be accountable, including for ethical and moral issues. From a value creation and delivery perspective, the emphases here are on the pursuit and accomplishment of good economic citizenship, which might translate into a highly favourable corporate reputation as a business entity that merits continued support and patronage.

## 6. Some final observations

It is not possible for a short paper such as this can provide a comprehensive introduction to the many theoretical journeys that colleagues presently contemplating theorising in the business model domain might consider pursuing. Many other fruitful pathways certainly merit similar exploration. What all promise extends beyond an exercise in simply adding an extra dimension to the domain's corpus of knowledge and understanding. They will require colleagues to embrace the challenges associated with interdisciplinary research and scholarship. There will also be a necessity to develop a facility to make use of theoretical perspectives originating a significant distance from the business model domain and which might subsequently be deployed in developing knowledge and understanding of different domains. The importance of better understanding the context within which business models are constructed and implemented will be recognised, as will the symbiotic relationship which exists between theory and methodology.



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